Monthly Review
Federal Reserve Bank of Boston

PULP AND PAPER MANUFACTURING IN NEW ENGLAND: Brown Company, *Berlin, N. H.*

New and Specialized Products Strengthen NEW ENGLAND'S PULP AND PAPER INDUSTRY

New England made one-eighth of the paper and paperboard produced in the nation in 1947 and stands high in the output of special kinds of paper, particularly the higher grades and types for technical use. The pulp and paper industry has grown more rapidly in some other parts of the country than it has in New England during recent years. The industry and its affiliated converting operations are nevertheless important activities in the region's industrial economy.

Plant modernization, effective management and marketing, economy in wood use, and good forestry practices are essential elements of the industry's prospects for continued successful operation in New England.

NEARLY half a century has elapsed since Newton Newkirk published the "Bingville Bugle" and promoted circulation by pointing out that it made good shelf-covering material. This appeal to potential subscribers had an unintended serious side. Paper serves a wide variety of purposes. The use of sheets of paper in the printing of this *Review* bears little relationship to the application of specialized protective papers to food packaging or the service rendered by a piece of facial tissue. There are hundreds of thousands of end uses for paper, but basic production techniques are identical for all types of paper.

In 1728 a mill on the Neponset River near Boston turned out the first paper manufactured in New England. Four other mills were already making paper in what is now the United States — three in Pennsylvania and one in New Jersey. A direct descendant of the first New England paper mill is still making paper on the Neponset River. It makes twice as much paper in an hour as the original mill made in a year.

By 1880 Massachusetts led the states in paper and paperboard production. Rags, straw, and manila stock were the principal raw materials for making paper. Supplies were inadequate to meet the growing demand and the industry was searching for other suitable sources of paper pulp. Fortunately scientists had foreseen this difficulty and by the latter part of the nineteenth century the industry had developed methods for making paper pulp from wood on a commercial scale. Today wood fiber, new and recovered, is the raw material for more than 90 per cent of all paper and paperboard.

For many years spruce was the preferred wood in the manufacture of pulp by the mechanical grinding and sulphite processes. Manufacturers using the soda process preferred poplar. Both of these species were available in commercial quantities in northern New England and the adjacent Canadian provinces. Development of pulp and paper manufacture drawing on those supplies of wood, particularly in Maine but also in New Hampshire and Vermont, helped New England to maintain a dominant position in the industry during the early years of the twentieth century. As recently as 1929, Maine was the leading state in wood pulp production, but by 1939 it had lost its lead to Washington.

New England has not shared proportionately, however, in the growth of the nation's pulp and paper industry during the second quarter of the twentieth century. The perfection of methods for making pulp from the southern pines for conversion into coarse wrapping papers and container board and, more recently, bleached sulphate pulp for use in the higher grades, the availability of large supplies of pulpwood in the Pacific Coast states, and other factors have favored a more rapid expansion of the industry in those areas.

Nevertheless, employment in the New England paper and paper products industry increased 18 per cent from 1919 to 1947.[1] But employment in the primary output of pulp and paper did not grow in New England. Growth of employment in firms converting paper to special products accounted for the increase over the period.

[1] See *The New England Economy*, the report to the President by the Committee on the New England Economy of the Council of Economic Advisers, July 1951.

Combat Inflation by Increasing Savings
BUY U. S. DEFENSE BONDS

New England was already specializing in the production of the higher grades of paper and paperboard in 1914. Its mills produced that year 31 per cent of the national output by weight and 38 per cent in terms of value, according to the Census of Manufactures. New England's output of paper and paperboard brought the mills an average price of $69.13 per ton compared with $49.21 for the mills in the rest of the country. New England's average price of $165.86 per ton in 1947 was $37.08 above the average price received by mills in other parts of the United States. New England is still specializing in the higher grades.

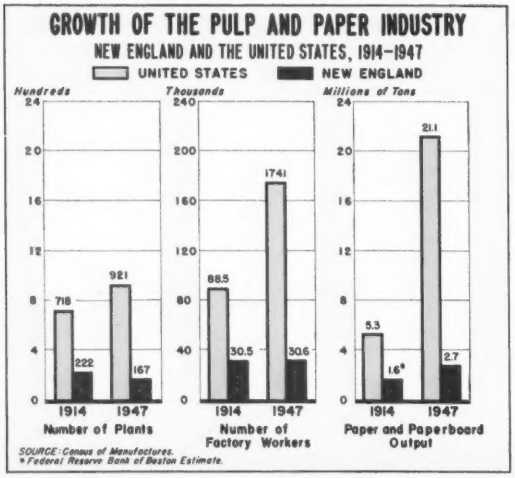
The nation was dependent upon New England and New York for 60 per cent of its wood pulp production in 1914. But by 1947, expansion of pulp production in the rest of the country had brought New England's output down to 12 per cent of national output.

After 1913, production of newsprint paper expanded rapidly in Canada. Plentiful supplies of pulpwood and ample water power made that country a natural location for this branch of the industry.

The rapid growth in consumption of paper and paperboard in the country, particularly of the packaging types, has largely coincided with the spectacular growth of the industry in the southern states which now supply most of the nation's needs for coarse wrapping papers and container board. They accounted for about half the national wood pulp production and nearly 30 per cent of the paper and paperboard production in1947.

The shift of the industry away from the Northeast has had profound effects on New England manufacturers. In 1947 pulp mills and paper and paperboard mills in other parts of the country were producing a larger output per production worker, adding more value by manufacture and gaining more product value for each dollar spent in wages than mills in New England, even though New England's wages were somewhat below the national average. The wide widths, high speeds, continuous operation, and modern efficiency of the machines in the newer mills in other areas give them advantages which more than offset New England's higher average unit value of product.

The paper and allied products industry, including the converters and processors, accounts for a much higher proportion of total manufacturing employment in the three northern New England states than it does in the southern tier. It was the second most important industry in Maine and Vermont in 1947 in terms of value added by manufacture and the third most important in New Hampshire. It fell to sixth place in Massachusetts as in all New England and also in the nation.



High Grades New England's Specialties

New England paper and paperboard producers create high unit values by producing large proportions of the nation's supply of the higher and more specialized grades such as writing papers, bristol boards, and special industrial papers. They make a small contribution to the supply of the lower grades like coarse wrapping papers and container board, which together make up more than one-third of the total national tonnage. But more familiar grades only tell part of the story.

New England manufacturers are displaying awareness of the challenges they face. They are drawing heavily on their financial resources to provide the millions of dollars required to replace antiquated machinery and to improve plant layouts. Of even more significance, they are re-enlisting their imaginations and ingenuity and taking advantage of the opportunities presented by changing times to strengthen their positions in the trade. They are making themselves known as sources of a large variety of distinctive and high-specification pulps, papers and paperboards in order to apply their technical knowledge and skill more advantageously.

What are some of these high-specification and distinctive types of paper and paperboard that New England producers are making? It is not possible to list them all here. One of the most marked developments in modern New England papermaking is the trend toward technical grades of wrapping papers. No other production section of the country produces so many specialized grades. Export and protective wrapping for heavy and light merchandise or machine-specification grades of frozen food wraps for packers, heat sealable wraps, weatherproof and waterproof papers, and corrosion-and-rust-preventing types are important products in the industrial and commercial fields.

The New England paper industry continues to produce the conventional fine writing and printing papers, including a variety of linens, ledgers, bonds, vellums, weddings, and parchments, up to 100 per cent rag content, for which it gained a favorable reputation many years ago. It is also turning out quantities of long-lasting cotton-content record and document, lithograph, chart, and map papers for use where long life is an essential feature.

In addition to high-grade filled and coated book and magazine paper, another of New England's traditional products, its mills are making teletype and other high-speed communication tapes, bible paper, and sensitized check paper. They are specializing in the higher grades of paperboards: bristol, index, tag, and poster boards.

Silvered, gilded, and colored foils for Christmas and gift wrapping and for fancy box facings, and cloth- and metallic-lined papers are among the industry's highly specialized products. New England mills turn out large quantities of deluxe facial tissues. They make papers

and boards in a wide variety of colors and with other design features including special imprinting.

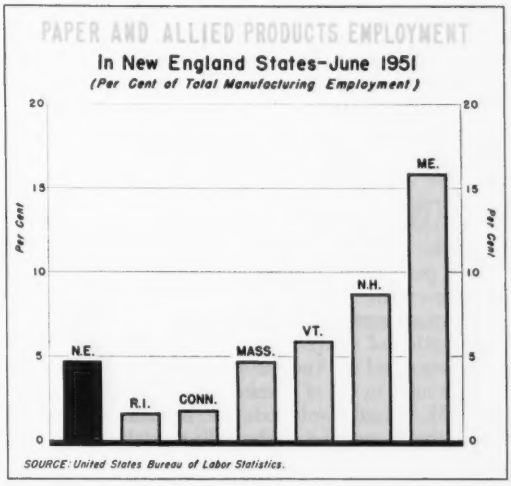
One New England company demonstrates the versatility of paper and paperboard by making asphalt-impregnated paper soil pipe and shoe innersoles. It also advertises itself as the maker of the world's largest-selling paper towels for industrial and institutional use.

New England pulp mills specialize in high-grade and specialized pulps for making rayon, cellophane, and other plastic products. Pulps for welding floc and for conversion into unbelievably thin condenser papers for use in radio and television sets, radar equipment, fluorescent lamps, and other delicate electrical devices are other products resulting from recent research.

Course for the Future

Does New England's pulp and paper industry possess advantages that offset some of its disadvantages and what are the prospects that it will prosper in the future? A pulp and paper manufacturer who operates mills in New England and the South[2] says **it is obvious that the northeastern integrated and non-integrated pulp and paper mills cannot compete in the types of paper produced by the mills in the South and, to a lesser extent, those produced in the Pacific Northwest and Southern Appalachian regions. The management and operation of pulp and paper mills in this area requires careful study of the advantages and disadvantages of their situation, ingenuity, and market development of the highest order to minimize their disadvantages, exploit their advantages, and maintain their position. It is necessary to modernize plants to improve efficiency because newer plants in other areas use fewer man-hours per ton. The same type of engineering attention must be applied in the woods to reduce pulpwood costs by cutting down the costly labor involved in harvesting and transporting this crude material.**

New England mills incur higher man-hour requirements per unit of value of product. On the other hand, their narrower machines can handle orders that do not interest the operators of the larger, faster-running machines in the South. With greater flexibility, New England mills can more readily handle colors, build special qualities into the sheet, and render better service to their nearby markets. They can provide better and more varied finishes, give service on smaller orders, and do more with the fiber than can the mills designed for quantity production. New England pulp mills have an advantage arising from the fact that spruce- and fir-sulphite pulp still has many quality advantages for certain papers, particularly printing papers. Bleaching costs no more in New England than elsewhere and bleached pulps enjoy quality advantages for the fine and specialty papers featured in N. E. production.



These comments by a man actively engaged in the industry go far in explaining why some of the statistics on New England's pulp and paper industry may be misleading as indexes of the industry's future in the area. They, and some of the previous comments, throw light on the question of how some of the smaller and older mills in New England have been able to hold themselves above economic marginality in spite of changes in their markets and their lower productivities. The New England mills possess another advantage in having been built when costs were lower than the present-day installation cost of $100,000 per ton of daily capacity. New England's mills may be proving that great volume and high speed are not always essential to success if ingenuity, aggressiveness, and willingness to change are allowed to play their parts.

Pulpwood Supplies Vital

No industry can prosper if its supply of raw materials dries up. Assurance of a continued adequate supply of pulpwood, the New England pulp and paper industry's

[2] J. L. Madden, *Economic Geography of the Pulp and Paper Industry*, unpublished manuscript, Boston, 1949.

AVERAGE WAGES, VALUES PRODUCED PER DOLLAR OF WAGES, AND TONNAGE OUTPUT PER PRODUCTION WORKER
Pulp and Paper Industry, New England and the United States — 1947

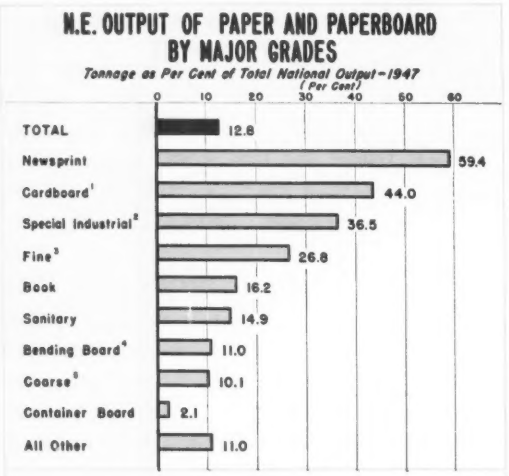
	Wages: Average Yearly		Wages: Average Hourly		Product Value F.O.B. Mill per Dollar of Wages		Value Added by Manufacture per Dollar of Wages		Yearly Production per Worker: Tons	
	N. E.	U. S.	N. E.	U. S.	N. E.	U. S.	N. E.	U. S.	N. E.	U. S.
Pulp mills	$2,810	$2,807	$1.19	$1.28	$6.50	$6.81	$2.16	$3.26	244	263
Paper and paperboard mills	2,860	2,965	1.18	1.28	6.37	7.39	2.46	2.75	110	164
All mills	2,850	2,924	1.18	1.28	6.40	7.24	2.40	2.88	136	190

Source: Census of Manufactures.

principal raw material, depends upon what is done to meet essential needs. A successful program calls for utilization of a wide variety of tree species; for getting as much pulp as possible out of each cord of wood; and for avoiding depletion of the forests. It has become obvious in recent years that maintaining New England's pulp-producing capacity is tied in with freedom from complete dependence upon spruce, fir, and poplar as the source of its pulpwood supply. Research and technical application have overcome this obstacle and today the industry consumes large quantities of other species, particularly the common hardwoods, but also to a lesser extent the native pines. Mixed hardwoods made up more than 75 per cent of the 1950 pulpwood consumption of a large company which formerly used only spruce and fir. Another company converted one of its pulp mills to use of nothing but hardwood in January 1951. Mixed hardwoods are replacing poplar in the pulpwood supplies of the mills specializing in soda pulp for book and magazine papers.

This development has reduced but not wholly removed the difficulties that non-integrated paper mills encounter in procurement of their pulp supplies — a condition that appears to offer the threat of becoming chronic, at least until the country suffers a major economic setback. New England paper mills are dependent upon Canada and the Scandinavian countries for important proportions of their pulp supplies.

The industry has made successful efforts to increase the yield of pulp from wood over a long period of years. Last year it announced a new pulping process developed through a research project sponsored by the pulp and paper companies of the Northeast. Called the chemi-groundwood process, this method of converting wood to pulp by a combination of chemical treatment and grinding produces higher yields than formerly obtainable and permits utilization of a wide variety of species, including many of the hardwoods. Operating costs are low and the quality of the pulp is high, particularly for some specialized purposes. This new process gives promise of conferring important benefits on New England's pulp and paper industry. Many pulp mill sites have the ample water power required by this process.



1. Tag stock, playing card stock, poster manilas, etc.
2. Abrasive papers, electric insulation paper and board, gasket, stencil, tabulating card, file folder stock, etc.
3. Linens, ledgers, bonds, writing papers, papetries, map, drawing, and protective (check) papers, bristol boards, etc.
4. Folding boxboards, chipboards, food container, milk bottle and cup stock, etc.
5. Wrapping, bag, glassine, waxing and asphalting papers, etc.

Source: Census of Manufactures.

New England pulp mills require more than two and a quarter million cords of pulpwood annually for their current yearly production of nearly 1.5 million tons of wood pulp. They are dependent upon eastern Canada, however, for about one-quarter of their pulpwood supply. On the other hand, some pulp mills in New York draw pulpwood from New England. The current annual pulpwood cut in New England is between one and three-quarters and two million cords, mostly spruce and fir. The yearly demands on New England's forests for pulpwood, lumber, and other forest products are greater than the annual growth, and the supply of standing merchantable timber and wood is slowly diminishing. Fortunately, the foresters tell us, New England's forests could quite easily produce three times the amount of wood they are now producing annually, and they have not yet been disastrously depleted. Better and more widely applied forestry practices are the key to this desirable outcome.

Heavy plant investment in the pulp and paper industry and requirements for water for power and processing make movement from one plant site to another impractical. The consequent need for assurance of long-continued supplies of wood from the same area has made this industry forestry-conscious for many years. The employment of trained foresters has been a common practice. Nevertheless, the application of good forestry to New England's forests, particularly among the quarter of a million or so of small ownerships, is still in its infancy.

Recognizing their dependence to a great extent upon the small ownerships for their pulpwood supply, some of the New England pulp and paper companies have undertaken programs of education and promotion of better forestry among these owners. One manufacturer recently stated his opinion that the forestry activities necessary to insure a perpetual supply of pulpwood will cost the industry fifty cents for each cord of wood currently consumed. He expressed belief that this will be a good investment.

Some thought has been given to the opportunity that the use of hardwoods for pulp manufacture may present for expansion of the industry in southern New England where there are large supplies of unused hardwoods and growing conditions appear favorable. Availability of process water, provisions for prevention of stream pollution, and present-day installation costs would be essential considerations in such a development.

New England's pulp and paper industry contends with some weaknesses but it also possesses some inherent strengths. Its future will depend upon whether management continues to exploit its strengths and overcome its weaknesses successfully. It will also depend upon how the pulpwood supply problem is handled. Forestry and the pulp and paper industry should prove to be effective partners in this field of business activity.

Monthly Review
FEDERAL RESERVE BANK OF BOSTON

New Production Facilities for New England

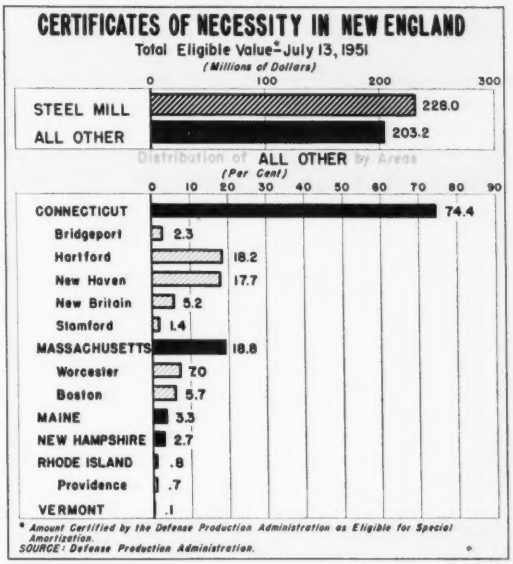
HISTORY is repeating itself as American manufacturers speed up expansion of productive capacity. During World War II, New England produced nine per cent of the major war supplies, yet non-military facilities built in the region were only four per cent of the total built in the nation. By the end of June 1951, New England manufacturers had received about ten per cent of all defense contracts (including construction). But they appear to be planning for only 5.5 per cent of the national expansion of manufacturing facilities under the program allowing a rapid amortization of capital costs.

The building of specialized plants to produce war materials involves a serious risk that investors may not recover their capital before the usefulness of the plant ends. Permission for manufacturers to recover special risk capital more quickly than allowed by normal tax provisions partially solved this problem during World War II. The Revenue Act of 1950 permits similar action. According to the provisions of that act, manufacturers planning defense-related expansion may ask the Defense Production Administration for a certificate of necessity which will permit them to write off a stipulated per cent of their capital costs in a five-year period. The proportion authorized for rapid amortization varies according to the type of facility, the post-emergency usefulness of the plant, and the financial aid deemed necessary to encourage the expansion.

During the 36-week period ending July 6, 1951, the eligible amount of certificates of necessity received by New England firms totaled $423,099,000, only 5.5 per cent of the national total. The New England Steel Development Corporation received more than half of the eligible amount. Exclusion of this single project reduces New England's share to only 2.6 per cent of the eligible amount of rapid amortization allowances in the United States.

An effort to expand productive capacity requires a broadening of the industrial base in its initial stages. Consequently, more than two-thirds of the eligible value of certificates of necessity issued in the nation by June 11 represented plants producing and processing basic materials, primarily metals. The expansion of facilities solely for the production and fabrication of iron and steel accounted for nearly one-third of the eligible value.

A fair assessment of New England's position in this rapid expansion depends on an understanding of the region's performance and opportunities in the metals industries. In 1947 New England's firms contributed five per cent of all the value added by manufacturing in the nation's primary metals industry. Although the New England branch of the industry expanded about 40 per cent in the past eleven years, it did not match the 70 per cent growth of the industry in the United States. The region has relatively little capacity in the important category of blast furnaces, steel works, and rolling mills, a category which includes one-half of the total employment in the United States primary metals industry. Fulfillment of plans for the New England steel mill would help to maintain New England's position in the industry during the current expansion period. Steel from the New England mill would greatly assist the expansion of fabricating plants.



Certificates of necessity for proposed investment in finished-product facilities comprised only 16.1 per cent of the United States total on June 11. Yet this is the area in which New England is expanding most. Excluding the proposed steel mill, approximately 90 per cent of New England's proposed expansion with certificates of necessity is in finished-product facilities. Proposed expansion in the aircraft industry alone accounts for 56 per cent of the New England total, exclusive of the steel mill.

More than eight per cent of the nation's proposed investment in finished-product facilities is scheduled for New England, as measured by the approved certificates of necessity. This record rests to a large extent on the fact that proposed investment by the region's aircraft manufacturers was 26.4 per cent of the national industry total by June 11. In the classification of "All Other Manufacturing" (which includes all finished-product facilities except aircraft manufacturing), the proposed investment in the region was only 3.7 per cent of the national total.

As the number of certificates of necessity granted for the expansion of finished-product facilities increases, it will become even more important for New England firms to improve their record. The newly constructed finished-product facilities located outside New England will provide low-cost competition to New England manufacturers. Competition of this sort was one of the important factors in explaining the recession troubles of New England firms in 1949.

Monthly Review
FEDERAL RESERVE BANK OF BOSTON

MEMBER BANK PROFITS — First Half 1951

THE favorable trends that have generally characterized the postwar earnings of New England member banks continued during the first half year of 1951. Net profits aggregating $17.2 million,[1] however, were practically unchanged from both half-year periods in 1950. A small increase in the net profits of Boston banks was slightly more than offset by a decline in profits at banks outside the city. An increase in expenses, net adjustments for losses and transfers to reserves, as well as increased taxes were the primary factors retarding gains or causing decreases in profits. In both areas, net profits on an annual basis were 6.2 per cent of total capital accounts, about the same rate earned for the full year 1950.

Total earnings were higher than in both half-year periods in 1950, principally because of firmer rates and a larger volume of loans. The increased earnings on loans resulted from a half-billion-dollar rise in outstanding volume since the first half of 1950 and a $150 million rise since the last half of the year. Rates averaged ½ to ¼ of one percentage point higher than in the half-year periods in 1950. Thus, a cumulative effect on earnings was produced, as many loans were made and renewed at higher rates. Loans in the commercial classification have accounted for most of the expansion in total loans since the end of 1950. Changes in the other loan groups have roughly offset each other.

The increased earnings on loans together with small increases in other earnings more than offset a drop in earnings on U. S. securities and brought the total to $93.2 million, up 14.4 per cent over earnings in the comparable period in 1950 and 6.3 per cent over those in the last half of the year. Earnings on U. S. securities were off moderately from their levels in both half-year periods in 1950, reflecting a smaller volume of holdings.

Earnings on loans amounted to 51 per cent of the total while earnings on U. S. securities comprised only 22 per cent. These proportions compare with 46 per cent for loans and 28 per cent for U. S. securities in the first half of last year. The distribution of other earnings by source did not undergo substantial change. Earnings on other securities increased moderately and small gains arose from earnings on trust department operations.

Current expenses advanced to $58.7 million. This outlay represented a 10 per cent increase compared with that for the first half of 1950, but was only slightly higher than such outlays in the second half of the year. No change occurred in the relative importance of expense items. Salaries and wages rose in about the same proportion as other operating expenses. Increases in general resulted from the price rise which the country has had since the Korean war. Expenses increased less rapidly than total earnings, and net current earnings constituted a larger proportion of total earnings than in either half-year period in 1950.

Net current earnings amounted to $34.4 million, almost 22 per cent higher than in the first half of 1950 and 14 per cent more than in the last half. The rise in net current earnings was more than sufficient to offset an increase in the net adjustment for losses and recoveries, and transfers to reserves. Net losses and charge-offs on loans and securities amounted to $5.1 million, which was larger than in both periods last year. Transfers to valuation reserves, although smaller than in previous periods, were still substantial.

Taxable net income rose 15.4 per cent over its level for the first half of 1950 and reached $29.2 million. Taxes on net income, however, increased by $4 million to $12 million, up 51 per cent since the first half of last year and 33 per cent since the year end. This unusually large increase reflected a larger taxable income and an increase in the tax rate. The excess profits tax affected few banks.

A slightly larger proportion of net profits were distributed as cash dividends than in 1950 and actual payments were also larger.

[1] Usual differences in some earnings and expense categories do not invalidate comparisons of first half-year earnings with those in the second half. However, the comparisons should be made with care. For example, bonuses paid to staff, and losses and charge-offs are usually reported in larger volume in the second half of the year than the first.

MEMBER BANK EARNINGS, EXPENSES, AND PROFITS
(Amounts in Thousands of Dollars)

	Boston		Other First District Banks	
	First Half 1951	% Change from Second Half 1950	First Half 1951	% Change from Second Half 1950
Earnings:				
Interest received on bonds and stocks	$ 7,334	—26.0%	$17,034	— 1.8%
Interest received on loans and discounts	17,191	+19.9	30,642	+ 9.9
Service charges on deposits	1,066	+ 1.6	4,496	+ 5.7
Trust department	3,620	+13.3	3,332	—10.2
All other income	4,419	+104.8	4,024	+ 7.0
Total earnings	**$33,630**	**+ 9.7%**	**$59,528**	**+ 4.5%**
Expenses:				
Salaries and wages	$10,348	+ 6.8%	$18,641	— 0.7%
Interest paid on time deposits	810	+ 2.3	5,644	— 0.1
All other expenses	8,079	+ 3.2	15,221	+ 3.9
Total expenses	**$19,237**	**+ 5.1%**	**$39,506**	**+ 1.1%**
Net losses	$ 2,078	+ 2.9%	$ 3,132	+49.5%
Profits before income taxes	$12,315	+19.3%	$16,890	+ 7.0%
Taxes on net income	5,162	+29.7	6,886	+36.2
Net profits	**$ 7,153**	**+12.7%**	**$10,004**	**— 6.8%**
Dividends declared on common stock	$ 3,728	—14.1%	$ 5,113	— 7.1%

Changes in Sources of Earnings

COMMERCIAL LOANS — After ten months of uninterrupted increase, bank loans to business leveled off during April, and since then repayments have almost offset amounts of credit extended. At the half year, business loans aggregated $1.3 billion, up 41 per cent from June 1950 and 14 per cent from the year end. The rise was centered in Boston and other large cities in the district. Banks outside these cities reported only a 25 per cent gain from June of last year. Business loans at the half year accounted for about 25 per cent of earning assets.

As a result of a change in the business situation and restrictive action by the monetary authorities, the composition of commercial loans has been changing. Loans to durable-goods manufacturers for defense con-

tracts have been rising much more rapidly during 1951 than they did last fall and have accounted for an increasing percentage of total loans — more than 15 per cent in recent months. Concerns engaged in retail and wholesale trade have also been borrowing more than they did last fall. On the other hand, substantial declines have appeared in inventory and working capital loans to concerns engaged in nondurable goods manufacturing, sales financing, and dealers in commodities. Along with the increased volume of business, loan rates rose somewhat. The average rate on short-term commercial loans at Boston banks in June stood at 3.13 per cent compared with 2.85 per cent six months earlier and 2.69 per cent a year ago. The number and aggregate dollar volume of short-term business loans was smaller during the first half of June than in the comparable period in March. Rates on almost all sizes of loans increased uniformly. In part the rise in rates may be explained by the increasing proportion of loans made in the medium- and small-loans groups, which carry higher rates, and in part by the general firming of rates in response to a more restrictive credit policy.

OTHER LOANS — Residential real estate loans were a second major source of demand for bank credit. These loans aggregated $329.4 million at the half year, up 8.7 per cent since the year end and 15 per cent from a year ago. As in the case of business loans, the increase this year occurred in the first quarter. New housing starts, although below the 1950 record rates, were high. Coupled with an active rate of turnover of existing properties, they sustained the demand for mortgage credit. Rates on residential real estate loans were also generally higher. Real estate loans on commercial properties declined during the first half of 1951, almost offsetting the increase in residential loans. Consumer loans showed little change during the last six months. Outstandings in June were about 8 per cent higher than the level a year ago.

INVESTMENTS — All banks decreased their investments. This group of assets fell to 54 per cent of total earnings assets. A drop in U. S. securities more than offset an increase in holdings of municipal bonds. Holdings of corporate issues were practically unchanged. Banks sold U. S. securities to provide reserve funds with which to meet expanding loan volume and to acquire other assets with higher yields. In other instances, they used proceeds to restore reserve positions.

MEMBER BANK CONDITION
(Amounts in Thousands of Dollars)

	Boston		Other First District Banks	
	June 30, 1951	% Change from Dec. 30, 1950	June 30, 1951	% Change from Dec. 30, 1950
Assets:				
Total reserves, cash and balances	**$ 623,011**	**— 3.5%**	**$ 856,225**	**—10.2%**
Total U. S. securities	$ 732,774	—12.7	$1,604,065	— 7.2
Other securities	147,021	+ 4.9	354,028	+12.7
Commercial and industrial loans	$ 715,769	+14.6	$ 570,782	+13.2
Real estate loans	92,541	—11.7	369,876	+ 1.5
Other loans to individuals	142,798	— 4.5	355,722	+ 5.7
All other loans	70,301	—21.6	89,795	+11.2
Less reserve for bad debt losses, etc.	$ 17,939	+ 7.5%	$ 20,603	+10.5%
Total loans and discounts	1,003,470	+ 5.4	1,365,572	+ 7.8
Total loans and investments	**$1,883,265**	**— 2.5%**	**$3,323,665**	**+ 0.4%**
All other assets	65,383	+ 31.5	60,072	+ 9.9
Total assets	**$2,571,659**	**— 2.1%**	**$4,239,962**	**— 1.8%**
Liabilities:				
Demand deposits	$2,103,746	— 3.2%	$2,819,851	— 3.4%
Time deposits	179,771	— 2.4	1,045,809	+ 0.5
All other liabilities	66,674	+28.8	41,325	+31.8
Capital accounts	$ 221,468	+ 1.6%	$ 332,977	+ 1.7%

Recent Policy Changes and Prospects

Inflationary forces which dominated the business scene during the first quarter diminished during the second quarter. The sharp rise in prices, which was stimulated by loan expansion and which in turn generated a substantial part of the increase in loans, tended to level off. Two major developments in the nation's anti-inflationary program occurred during the second quarter. They were in part responsible for the diminished inflationary pressures. The Reserve System initiated a distinct change in credit policy. The System withdrew fixed support of prices of U. S. securities and permitted prices on many issues to decline below par. This action enabled the System to operate with greater flexibility in its open market operations. It was designed for the current period and directed at discouraging large net sales of U. S. securities to the System by lending institutions which intended to shift the proceeds into loans and other investments.

The Voluntary Credit Restraint Program for lending institutions was also formally organized. The banking and other lending committees set up under the program have since issued specific directions, suggesting purposes for which credit should not be extended. This program involves an attempt to regulate the volume of bank loans by cooperative action and to apply certain qualitative standards beyond the normal requirements of credit worthiness. The correct comparisons of the effect of these programs, however, are not with the credit volume outstanding accompanying such action, but with the higher volume which might obtain in their absence.

In assessing the outlook for the balance of the year, it should be noted that the basic factors governing the immediate course of business and its consequent effect on banking activity and earnings are hinged on international developments and the effectiveness of Defense Production Act Amendments. A successful armistice in Korea, with peace elsewhere, might relax inflationary pressures. Expansion of inventories and receivables would probably be slowed, apart from action by authorities. Some liquidation of consumer-goods inventories would be brought about with a consequent reduction of bank loans. The defense program, however, will probably continue without change for some time and defense spending will continue to rise. As presently planned, it carries considerable inflationary potential. Ultimately the defense program may involve some curtailment, or be stretched over a longer period of time. Bank loans for defense purposes may expand further and might continue the increase in credit supplies. The rate of increase of total loans, however, will probably be substantially reduced. In the absence of further large increases in taxes, bank earnings will probably show little change from the present period.

Monthly Review
FEDERAL RESERVE BANK OF BOSTON

NEW ENGLAND BOYS' AND GIRLS' CAMPS

NEW ENGLAND vacations in 1951 were much more popular than in 1950. In June vacation lodging business was about 14 per cent above its level in June a year ago, and July business was about 4 per cent ahead of last July's business. Advance reservations for space in August seemed to indicate a continuation of this favorable trend. Boys' and girls' camps opened the 1951 season with about four per cent more camper registrations than they had a year ago. The early optimism of vacation operators based upon the return of Canadian business and economic stimuli from the armament program appears well founded.

A New England vacation has its roots in tradition. Queen Awashonks of the Narragansett Indians used to summer on Cape Cod before the landing of the Pilgrims, according to legend. This fall one of the oldest vacation resorts in the nation, Wolfeboro, New Hampshire, will celebrate a successful vacation business that dates back to 1768.

New England history and the role of its families in the settling of the nation have helped the New England vacation industry to prosper without the aid of national promotions. Natural scenery, attractive vacation facilities and historic places provide a natural magnet for vacationists. But families of American settlers from New England have matured in their new surroundings. New England vacation operators may have to enter the promotional field more aggressively in order to offset losses resulting from severing of direct family ties and provide for growth in the industry. A well-rounded information program is in prospect.

The New England Council, the New England Hotel Association, the Northeast Cabin Owners' Association, and many other organizations are cooperating to make possible a national promotional and educational program to open the 1952 season.

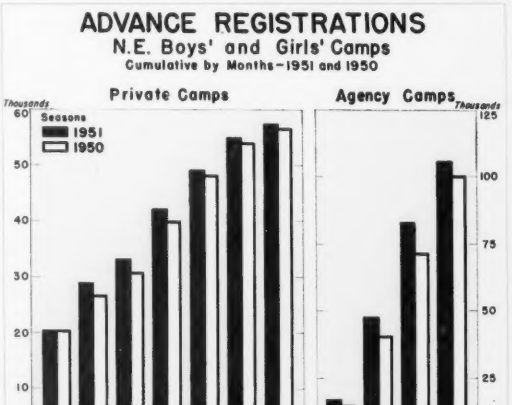
Impressions of New England gained early in life have been an important basis for the region's successful vacation business. The children and grandchildren of emigrants from New England have heard of relatives left behind and of life back East. Many stories and recollections grew more glamorous with each retelling. Children still receive an early introduction to New England history. They learn the story of the first Thanksgiving early and nationally. Early American history lessons cover the landing of the Pilgrims and the struggles of the Colonists.

Today's most direct assistance, however, comes from the large number of fine boys' and girls' camps throughout New England. New England boys' and girls' camps draw children from every corner of the country. An early introduction to New England not only lays the groundwork for their own vacation plans in the future, but also influences the current vacations of parents. During the summer of 1951, more than 42,000 youngsters have come from other sections of the country.

There are approximately 510 private boys' and girls' camps in New England with a 1951 capacity for about 60,000 campers, according to the estimates based on the New England Council Vacation Business Inventory, and other published and unpublished information. Registrations at the opening of the camping season indicated that campers would occupy more than 95 per cent of the total available camp space. There are about one per cent more campers in private camps this season than last.

All of the year-to-year increases in 1951 registrations at private camps took place in January, according to an accompanying chart. Registrations on the books for the 1951 camp season at the end of December were about equal to registrations at the same time a year ago. Registrations during January, however, increased by 35 per cent over those in the previous January because of a unique special promotion. Many camps offered 1950 rates to previous campers for early registration. The registration increase in January was sufficient to keep cumulative registrations above those of a year ago throughout the registration period.

Registrations in each month from February through June failed to show a single year-to-year increase. After the 35 per cent increase in January, February registrations only equaled those of a year ago; March registrations were off 1 per cent; April, 15 per cent; May, 1 per cent; and June, 9 per cent.

In addition to the private camps there are about 291 resident non-charity camps operated by agencies such as churches, Scouts, and "Y's". These camps provide low cost, educational and healthful vacations for almost 125,000 local youngsters. A shorter vacation stay per camper enables 291 agency camps to accommodate more campers than 510 private camps.

The agency camps opened the season with about six per cent more campers registered in 1951 than in 1950. They had registered about 85 per cent of their capacity. A comparatively low advance registration is normal for agency camps since they continue to accept campers throughout the season. It is probable that they may close the season with an actual occupancy ratio equal or close to that of the private camps.